Pidilite Industries Limited

All-round Q3; demand recovery on firm footing

Consumer Goods	Sharekhan code: PIDILITIND	Result Update

3R MATRIX	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)		✓	

\+ Positive = Neutral - Negative

What has changed in 3R MATRIX

	Old		New
RS		↔	
RQ		↔	
RV		↔	

Reco/View	Change
Reco: **Buy**	↔
CMP: **Rs. 1,669**	
Price Target: **Rs. 1,915**	↑

↑ Upgrade ↔ Maintain ↓ Downgrade

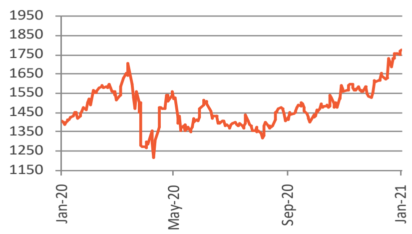
Company details

Market cap:	Rs. 84,807 cr
52-week high/low:	Rs. 1710/1186
NSE volume: (No of shares)	9.8 lakh
BSE code:	500331
NSE code:	PIDILITIND
Free float: (No of shares)	15.1 cr

Shareholding (%)

Promoters	70.2
FII	11.7
DII	8.2
Others	9.9

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-4.82	4.97	21.77	11.31
Relative to Sensex	-2.03	-11.47	0.19	-1.04

Sharekhan Research, Bloomberg

Summary

- Pidilite Industries (PIL) registered strong all-round performance in Q3 with organic revenue, operating profit and PAT rising 16%, 33% and 23% y-o-y, respectively.
- Domestic consumer business volumes grew 22% while B2B business recovered, rising 12% with good demand from industrials/construction segment.
- Company benefited from benign input prices in Q3 with gross margin expansion of 97bps. VAM prices have soared to $1300/tonne versus consumption cost of $875/tonne, which will pressurise margins in the near term.
- Management is eyeing double-digit volume growth in the coming quarters. We maintain a Buy with a revised PT of Rs. 1,915.

Pidilite Industries Ltd's (PIL's) Q3FY2021 results are not strictly comparable on y-o-y basis due to the consolidation of recently acquired Huntsman Advanced Material Solutions Pvt Ltd (HAMSPL).

Consolidated revenues grew by 19.3%y-o-y to Rs. 2,299crore (organic revenue grew by 16% Rs. 2,234crore). Standalone revenues grew by 18% to Rs. 1,948crore with underlying sales volume and mix growth of 19%. This was driven by a 22% rise in sales volume and mix of Consumer Bazaar (C&B) and 12% growth in sales volume & mix of B2B. Strong growth in consumer Bazaar is attributable to a double-digit growth in tier-3/4 towns and a strong recovery in metros. With industrial/construction activities improving, the B2B business grew by 12%. Benign input prices helped consolidated gross margins to improve by 97bps y-o-y to 54.8% and this combined with cost efficiencies drove up OPM by 383bps to 27.9%. VAM prices have gone up significantly and currently hovering around $1300/tonne (T) from the Q3 procurement price of $875/tonne. This will put pressure on gross margins in the near term. The company has already undertaken some price hikes in the B2B portfolio and hikes in the C&B will be judicious. PIL's focus on maintaining double-digit volume growth and efficiencies would ease pressure on margins in the near term. Further, Huntsman Advanced Material Solutions PVT Ltd (HAMSPL) clocked an OPM of over ~40% mainly led by a better mix and benefit of benign input prices. However, with a focus on improving penetration and higher investment behind the Araldite brand, margins might shrink slightly in the coming quarters. The company expects OPM to be at 21-24% in the near term. With construction activities gaining momentum in rural areas and recovering in metros, the consumer bazaar business is expected to post better performance in the coming quarters. International market such as America, Bangladesh and Sri Lanka are performing well for past few quarters.

Key positives

- Volume sin domestic C&B business grew by 22% as against our as well as street expectation of 12-14%.
- American region's revenues grew by 48% to Rs71.1crore and EBIDTA stood at Rs. 10crore
- B2B business has seen strong recovery and registered a growth of 10.4% in Q3.

Key negatives

- VAM prices currently stand at $1300/tonne as against procurement price of $875/tonne

Our Call

View: Retain Buy with a revised PT of Rs. 1,915: We have fine-tuned our earnings estimates to factor in higher VAM prices, double-digit growth in C&B segment, recovery in some of the international and domestic subsidiaries and consolidation of HAMSPL acquisition. With a strong brand portfolio, Pidilite has a monopoly in the domestic adhesives market and acquisition of Araldite brand further strengthens its position in the domestic adhesive space. The stock currently trades52.3x its FY2023E. A monopoly in adhesives market, consistently strong cash generation ability and robust growth prospects will keep multiples at a premium. We maintain our Buy recommendation on the stock with revised price target of Rs. 1,915.

Key Risks

Any intensified competition in the domestic construction chemical market or slowdown in the rural/urban market coupled with significant increase in the key input prices would act as a key risk to earning estimates

Valuation (consolidated) Rs cr

Particulars	FY19	FY20	FY21E	FY22E	FY23E
Revenue	7,078	7,294	6,818	8,658	9,736
OPM (%)	19.3	21.6	23.5	23.0	24.0
Adjusted PAT	946	1,177	1,070	1,346	1,620
% YoY growth	-2.0	24.4	-9.1	25.8	20.4
Adjusted EPS (Rs.)	18.6	23.2	21.1	26.5	31.9
P/E (x)	89.6	72.0	79.2	63.0	52.3
P/B (x)	20.4	19.0	16.4	13.8	11.5
EV/EBIDTA (x)	55.2	48.5	50.6	41.0	34.2
RoNW (%)	24.5	27.4	22.3	23.8	24.0
RoCE (%)	22.6	22.7	18.4	19.7	20.2

Source: Company; Sharekhan estimates

All-round show in Q3; HAMSPL acquisition a further boost: Consolidated revenues grew by 19.3%y-o-y to Rs. 2,299crore (organic revenue growth stood at 16% Rs. 2,234crore). Standalone revenues grew by 18% to Rs. 1,948crore with underlying sales volume and mix growth of 19%. This was driven by 22% growth in sales volumes and mix of C&B segment and a 12% growth in sales volume & mix of B2B.Benign input prices aided the consolidated gross margins to improve by 97bps y-o-y to 54.8% and combined with cost efficiencies, this drove up OPM by 383bps to 27.9%. Consolidated operating profit grew by 38.4%y-o-y to Rs640.8crore. Organic operating profit grew by 33%.Operating profit of acquired business stood at Rs24.7crore (OPM of 38%).Profit after tax (PAT) grew by 29% at Rs 446crore. Excluding the acquired business, it stood at 23% to Rs. 425crore.

Key conference call highlights

- VAM prices have risen to $1300/ tonne in recent times. Consumption cost stood at $875/tonne as against $940/tonne in Q3FY2020. It stood at $765/tonne in Q2FY2021. Hardening of VAM prices are expected to affect margins in the coming quarters. The management has indicated of judicious price increase, while it will focus on efficiencies to reduce stress on the profitability.
- The company saw a broad-based recovery across portfolio. As the virus scare receded, pent-up demand and recovery in industrial activities led to a strong demand resurgence in metros and tier-I towns. Rural and semi-urban markets recorded double-digit growth with strong demand for construction chemical products. Also, due to better supply and availability of products, consumers are shifting to large players from small unorganised players in the domestic market.
- Resurgence in industrial and manufacturing activities and resumption of real estate and construction led to an improvement in the B2B segment. On the other hand, domestic subsidiaries such as Nina Percept and ICA Pidilite saw a sequential improvement in performance. Domestic subsidiaries in the C&B segment grew at a healthy pace, B2B subsidiaries showed signs of recovery in the latter part of the quarter.
- The company's market share in the waterproofing segment has risen as there is strong demand for PIL's products in this space due to better penetration. The market is currently very small due to lower penetration. However, this provides huge opportunity for the company to scale up in the business.
- Overseas subsidiaries (including America and Asia) also performed strongly, reporting double-digit constant currency revenue growth and strong earnings growth. America's growth of ~48% was boosted by strong recovery in the construction activities in Brazil led by stimulus given by the government during COVID-19 era.
- Capacity utilisation currently stands at 85-90%. The company is planning to increase the capacity by doing regular capital expenditure of 4-5% of sales.

Results (consolidated) Rs cr

Particulars	Q3FY21	Q3FY20	y-o-y (%)	Q2FY21	q-o-q (%)
Total Revenue	2299.0	1926.6	19.3	1880.3	22.3
Total Operating Cost	1658.2	1463.4	13.3	1367.7	21.2
Operating Profit	640.8	463.2	38.4	512.6	25.0
Other Income	20.4	39.8	-48.8	21.7	-6.0
Interest & Other Financial Cost	12.1	8.2	47.4	8.7	39.5
Depreciation	49.5	41.9	18.2	47.9	3.3
Profit Before Tax	599.7	453.0	32.4	477.8	25.5
Tax Expense	154.8	108.4	42.8	122.0	26.9
Adjusted PAT before MI	444.9	344.5	29.1	355.8	25.0
Minority Interest (MI)	1.6	1.6	0.0	0.6	159.0
Adjusted PAT after MI	446.4	346.1	29.0	356.4	25.2
Exceptional Items	0.0	0.0	-	0.0	-
Reported PAT	446.4	346.1	29.0	356.4	25.2
Adj. EPS (Rs)	8.8	6.8	29.0	7.0	25.2
			bps		bps
GPM (%)	54.8	53.8	97	55.9	-119
OPM (%)	27.9	24.0	383	27.3	61

Source: Company; Sharekhan Research

Result (Standalone) Rs cr

Particulars	Q3FY21	Q3FY20	y-o-y (%)	Q2FY21	q-o-q (%)
Total Revenue	1956.7	1663.4	17.6	1630.2	20.0
Operating Profit	572.7	429.4	33.4	471.9	21.4
Other Income	19.5	39.1	-50.2	22.5	-13.5
Interest & Other Financial Cost	6.2	3.4	84.3	3.0	106.3
Depreciation	37.1	31.8	16.7	35.9	3.1
Profit Before Tax	548.9	433.4	26.6	455.4	20.5
Tax Expense	139.4	103.0	35.4	116.2	20.0
Adjusted PAT before MI	409.4	330.4	23.9	339.2	20.7
Exceptional Items	0.0	0.0	-	0.5	-
Reported PAT	409.4	330.4	23.9	338.8	20.9
Adj. EPS (Rs)	8.1	6.5	23.9	6.7	20.7
			Bps		**bps**
GPM (%)	55.1	54.0	111	56.5	-144
OPM (%)	29.3	25.8	345	28.9	32

Source: Company; Sharekhan Research

Standalone segmental performance Rs cr

Particulars	Q3FY21	Q3FY20	y-o-y (%)	Q2FY21	q-o-q (%)
Consumer & Bazaar	1591.5	1319.4	20.6	1335.2	19.2
Business to Business	375.5	340.0	10.4	315.0	19.2
Others	12.1	21.5	-43.7	7.2	69.2
Total revenue	**1979.1**	**1680.9**	**17.7**	**1657.4**	**19.4**
Consumer & Bazaar	591.1	442.6	33.6	491.1	20.4
Business to Business	57.6	57.0	1.1	43.8	31.4
Others	-0.5	0.2	-	0.8	-
Total PBIT	**648.2**	**499.8**	**29.7**	**535.7**	**21.0**

Source: Company; Sharekhan Research

Oversee subsidiaries performance Rs cr

Particulars	Q3FY21	Q3FY20	y-o-y (%)
Asia	70.2	63.4	10.7
Middle East &Africa	43.1	40.4	6.7
Americas	71.1	48.1	47.8
Total revenue	**184.4**	**151.9**	**21.4**
Asia	14.1	8.2	72.0
Middle East &Africa	-0.2	-1.2	-
Americas	10.3	1.5	-
Total PBIT	**24.2**	**8.5**	**184.7**

Source: Company; Sharekhan Research

Domestic subsidiaries performance Rs cr

Particulars	Q3FY21	Q3FY20	y-o-y (%)
Nina Percept Pvt. Ltd	61.2	78.7	-22.2
ICA Pidilite Pvt Ltd	58.6	47.3	23.9
Cipy Polyurethene	30.2	33.9	-10.9
Others	22.1	15.1	46.4
Total revenue (excld. HAMSPL)	**172.1**	**175**	**-1.7**
Pidilite Adhesives (HAMSPL)	59.1		
Total revenue	**231.2**	**175**	**32.1**
Nina Percept Pvt. Ltd	-1.7	8	-
ICA Pidilite Pvt Ltd	14.5	7.8	85.9
Cipy Polyurethene	3.8	6.8	-44.1
Others	-1.2	0.7	-
Total PBIT (excld. HAMSPL)	**15.4**	**23.3**	**-33.9**
Pidilite Adhesives (HAMSPL)	25.8		
Total PBIT	**41.2**	**23.3**	**76.8**

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector view - Long term growth prospects of construction chemicals intact

India's construction chemicals industry is at a nascent stage with a market size of ~Rs. 6,500-7000 crore, which is just 4-5% of the global construction chemicals market. Increase in construction and infrastructure activities with a strong adherence to quality will drive demand for construction chemicals in the near to medium term. Further, growing adoption of green-building concept and increasing government regulations pertaining to the use of high-quality waterproofing systems with low volatile organic compounds (VOC) and insulation would result shift to branded products in the medium to long term. With government focusing on improving the growth prospects of the furniture segment and converting it into one of the major exporting hub, the demand for adhesives are expected to increase in the coming years.

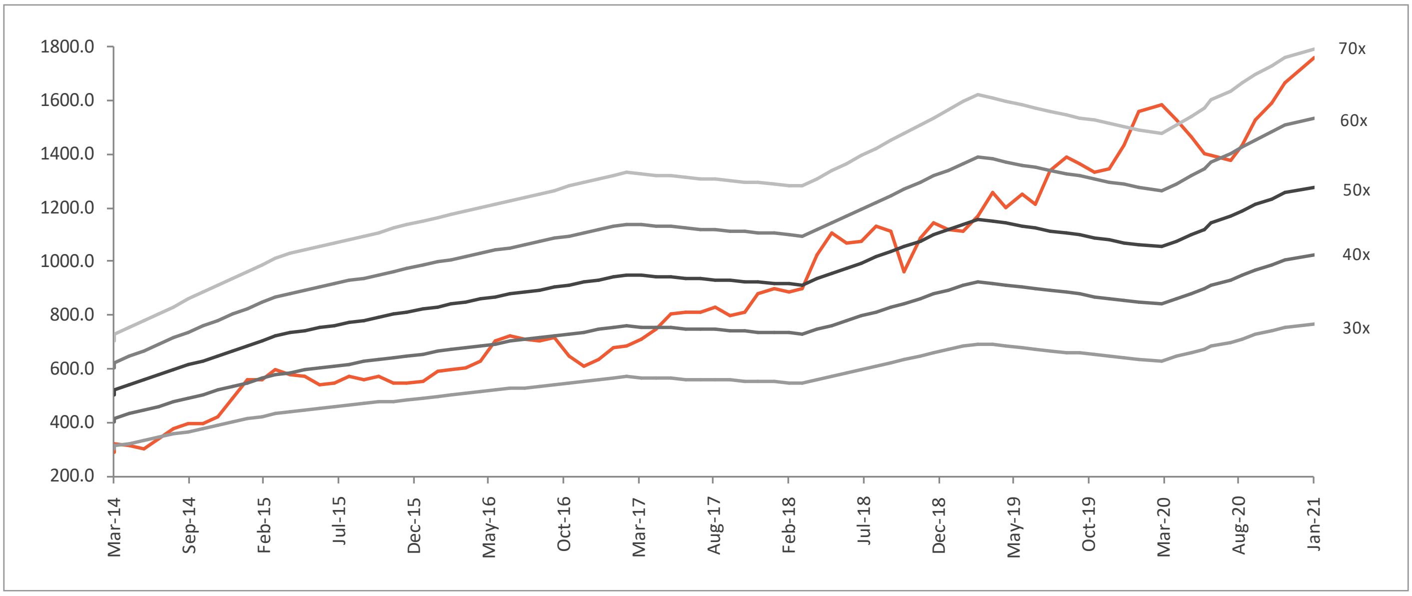
■ Company outlook - Strong growth expected in FY2022

With intensity of COVID-19 receding in India, the domestic consumer business is expected to post better growth in the coming quarter, while B2B business is recovering over pre-Covid levels. International markets such as America and Asia posted a recovery. However hardening of raw material prices would pressurise margins in the coming quarters. Consistent cash flow generation and a strong portfolio of brands would help the company beat competition in the tough times. FY2022 is expected to see strong double-digit revenue growth driven by strong pent-up demandin key categories. We expect revenues and PAT to grow at to grow at CAGR of 19% and 23% over FY2021-23E.

■ Valuation - Retain Buy with revised PT of Rs. 1,915

We have fine-tuned our earnings estimates to factor in higher VAM prices, double-digit growth in C&B segment, recovery in some of the international and domestic subsidiaries and consolidation of HAMSPL acquisition. With a strong brand portfolio, Pidilite has a monopoly in the domestic adhesives market and acquisition of Araldite brand further strengthens its position. The stock currently trades 52.3x its FY2023E. A monopoly in adhesives market, consistently strong cash generation ability and robust growth prospects will keep multiples at a premium. We maintain our Buy recommendation on the stock with revised price target of Rs. 1,915.

One-year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

Particulars	P/E (x)			EV/EBIDTA (x)			RoCE (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Asian Paints	72.5	61.6	52.3	45.9	39.4	33.5	22.7	22.8	23.0
Astral Poly Technik	100.6	74.0	60.5	57.4	44.5	37.5	19.1	22.3	23.2
Pidilite Industries	79.2	63.0	52.3	50.6	41.0	34.2	18.4	19.7	20.2

Source: Company, Sharekhan estimates

About company

Pidilite is a leading manufacturer of adhesives and sealants, construction chemicals, crafts products, DIY (Do-It-Yourself) products and polymer emulsions in India. Pidilite has divided its business into two segments; Consumer & Bazaar Product segment (C&B; includes adhesives, sealants, art and craft material and others, construction and paint chemicals) and Industrial Product segment (IP; includes industrial adhesives, synthetic resins, organic pigments, pigment preparations and surfactants). C&B accounts for ~84% of Pidilite's standalone revenue while balance is contributed by IP segment. The company's brand name Fevicol has become synonymous with adhesives to millions in India and is ranked amongst the most trusted brands in the country. Some of the other major brands are M-Seal, Fevikwik, Fevistik, Roff, Dr. Fixitand Fevicryl.

Investment theme

Pidilite has monopoly in the domestic adhesive market on account of its strong product portfolio. Over the years it has transformed itself from B2B to B2C players by consistently introducing consumer centric product in the domestic market. Though FY2021 will be affect the by Pandemic situation, its long term growth prospects are intact as the company is continuously launching new products under core brands, entering into new categories, expanding into neighbouring countries and enhancing the domestic distribution reach. Strong cash flows, lean balance sheet and decent payout makes it safest better in the volatile market environment.

Key Risks

- **Sustenance of pandemic situation:** If global pandemic situation takes time to get under control, the recovery in the business environment will take more time, which will continue affect the financial performance of Pidilite in the near term.
- **Increase in competition:** Any increase in competition from established players would act as a key risk to the earnings estimates in the near to medium.

Additional Data

Key management personnel

Bharat Puri	Excutive Director - MD
Apurva Parekh	Excutive Director
Pradip Menon	Chief Financial Officer
Puneet Bansal	Company Secretary

Source: Company

Top 7 shareholders

Sr. No.	Holder Name	Holding (%)
1	Genesis Indian Investment Co Ltd	5.0
2	Life Insurance Corporation Of India	3.0
3	Axis Asset management Co Ltd	2.3
4	Vanguard Group	0.9
5	Blackrock Inc	0.8
6	Norges Bank	0.7
7	UTI Asset Management Company	0.4

Source: Bloomberg

Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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